

**AUDITED
BASIC FINANCIAL STATEMENTS**

**ROCHESTER ECONOMIC DEVELOPMENT
CORPORATION**

SEPTEMBER 30, 2017

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

Contents

| | <u>Page</u> |
|---|--------------|
| Independent Auditor's Report..... | 1-2 |
| Management's Discussion and Analysis..... | 3-6 |
| Basic Financial Statements: | |
| Statements of Net Position | 7 |
| Statements of Revenues, Expenses and Changes in Net Position..... | 8 |
| Statements of Cash Flows | 9 |
| Notes to the Financial Statements | 10-15 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 16-17 |



INDEPENDENT AUDITOR'S REPORT

The Board of Directors of Rochester Economic Development Corporation
Rochester, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Rochester Economic Development Corporation, (the Corporation) as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of September 30, 2017 and 2016, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Rochester, New York
December 8, 2017

As management of the Rochester Economic Development Corporation, we offer readers of the Rochester Economic Development Corporation's financial statements this narrative overview and analysis of the financial activities of the Rochester Economic Development Corporation for the fiscal year ended September 30, 2017.

Financial Highlights

- + The assets of the Rochester Economic Development Corporation exceeded its liabilities at the close of the most recent fiscal year by \$14,342,347 (*net assets*). Of this amount, \$956,240 (*unrestricted net assets*) may be used to meet the Rochester Economic Development Corporation's ongoing obligations to creditors.
- + The Rochester Economic Development Corporation's total assets increased by \$176,822 primarily due normal operations of the Corporation.
- + As of the close of the current fiscal year, the Rochester Economic Development Corporation's funds reported combined ending net position balances of \$14,342,347 an increase of \$251,249 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Rochester Economic Development Corporation's basic financial statements. The Rochester Economic Development Corporation's basic financial statements comprise two components: 1) corporation-wide financial statements and 2) notes to the financial statements.

Corporation-wide financial statements. The *corporation-wide financial statements* are designed to provide readers with a broad overview of the Rochester Economic Development Corporation's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Rochester Economic Development Corporation's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Rochester Economic Development Corporation is improving or deteriorating.

The *statement of activities* presents information showing how the corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The corporation-wide financial statements can be found on pages immediately following this section as the first two pages of the Basic Financial Statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the corporation-wide financial statements. The notes to the financial statements can be found following the Basic Financial Statements section of this report.

Corporation-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Rochester Economic Development Corporation, assets exceed liabilities by \$14,342,347 at the close of the most recent fiscal year.

Currently, of the Rochester Economic Development Corporation's net assets, 11 percent reflects its investment in capital assets. The Rochester Economic Development Corporation uses these capital assets to provide additional revenue for future spending.

Rochester Economic Development Corporation's Net Position

| | | | Variance | |
|-------------------------------------|----------------------|----------------------|---------------------|--|
| | 2017 | 2016 | Increase/(Decrease) | |
| Current and other assets | \$ 5,118,731 | \$ 10,254,301 | \$ (5,135,570) | |
| Capital assets and notes receivable | 9,254,497 | 3,942,105 | 5,312,392 | |
| Total assets | 14,373,228 | 14,196,406 | 176,822 | |
| Long-term liabilities outstanding | - | - | - | |
| Other liabilities | 30,881 | 105,317 | (74,436) | |
| Total liabilities | 30,881 | 105,317 | (74,436) | |
| Net assets: | | | | |
| Invested in capital | 1,666,412 | 691,812 | 974,600 | |
| Restricted | 11,719,695 | 12,737,121 | (1,017,426) | |
| Unrestricted | 956,240 | 662,156 | 294,084 | |
| Total net assets | \$ 14,342,347 | \$ 14,091,089 | \$ 251,258 | |

Rochester Economic Development Corporation's Changes in Net Position

| | | | Variance | |
|--------------------------------|----------------|----------------|------------------------|--|
| | 2017 | 2016 | Increase (Decrease) | |
| Operating revenues | | | | |
| Interest on notes receivable | \$ 125,490 | \$ 25,567 | 99,923 | |
| Rental income | 277,164 | 208,632 | 68,532 | |
| Other revenues | 73,907 | 59,874 | 14,033 | |
| Total operating revenue | 476,561 | 294,073 | 182,488 | |
| Operating expenses | 232,627 | 268,319 | (35,692) | |
| Operating income (loss) | 243,934 | 25,754 | 218,180 | |
| Nonoperating revenues | | | | |
| Interest revenues | 7,324 | 10,033 | (2,709) | |
| Interest expenses | 0 | 0 | - | |
| Total nonoperating revenue | 7,324 | 10,033 | (2,709) | |
| Change in net assets | 251,258 | 35,787 | 215,471 | |
| Net Assets - beginning of year | 14,091,089 | 14,055,302 | 35,787 | |
| Net Assets - end of year | 14,342,347 | 14,091,089 | \$ 251,258 | |

The Rochester Economic Development Corporation's total assets increased \$176,822 due mainly to ongoing operations of the Corporation.

Financial Analysis of the Corporation's Funds

Restricted Funds. The following programs comprise the majority of the Rochester Economic Development Corporation's restricted funds; Revolving Loan Program, the Investing in Manufacturing Communities Partnership (IMCP) and the Phillip J. Banks Small Business Assistance Program.

As of the end of the current fiscal year, the Rochester Economic Development Corporation's restricted funds reported combined ending net position of \$11,719,695, a decrease of \$1,017,426 in comparison with the prior year. The Revolving Loan Program had a net decrease of \$1,022,608 due mainly to ongoing collections and interest and a transfer of \$1,091,417 to the Bulls Head program. The IMCP program had a net increase of \$5,182 due to ongoing collections and interest.

Unrestricted Funds. The unrestricted funds include the day-to-day operations of the Rochester Economic Development Corporation. At the end of the current fiscal year, the unrestricted funds balance was \$956,240 which was an increase of \$299,622 from the prior year.

Budgetary Highlights

The Rochester Economic Development Corporation budgets funds on a project-by-project basis. The projects are approved by the Rochester Economic Development Corporation's Board of Directors.

Capital Assets and Debt Administration

Capital Assets. In accordance with Governmental Accounting Standards Board Statement Number 34, the Rochester Economic Development Corporation has recorded depreciation expense associated with all of its capital assets. The Rochester Economic Development Corporation's investment in capital assets for its corporation and business type activities as of September 30, 2017, amounted to \$1,666,412 (net of accumulated depreciation). The total increase in the Rochester Economic Development Corporation's investment in capital assets for the current fiscal year was \$974,600.

More detailed information on the Rochester Economic Development Corporation's capital assets is provided in the Notes to the Financial Statements.

Economic Factors

From September 2016 to September 2017, New York State's private sector job count rose by 84,400, or 1.1%, according to preliminary figures released today by the New York State Department of Labor. In September 2017, the state's private sector job count fell by 36,500. Since the beginning of Governor Andrew M. Cuomo's administration, New York State's economy has added 967,500 private sector jobs and experienced employment growth in 68 of the past 81 months. In September 2017, New York's statewide unemployment rate increased from 4.8% to 4.9%.

Private sector jobs in the Rochester metro area decreased over the year by 3,100, or 0.7 percent, to 452,300 in September 2017. Gains were concentrated in natural resources, mining and construction (+700). Job losses were greatest in trade, transportation and utilities (-1,900), financial activities (-700), manufacturing (-700) and professional and business services (-700). The largest segments of the Rochester metro economy continue to be education/health services, trade, transportation and utilities, government, and professional/business services. The largest employer in the area continues to be University of Rochester/Strong Medical Center, followed by Rochester Regional Health.

In September 2017, the statewide unemployment rate was 4.9%, compared to 4.2% for the United States. The Rochester metro area unemployment rate at September 2017 was 4.7%.

The top five largest employers in the Rochester area are University of Rochester/Strong Medical Center, Rochester General Health System, Wegman's Food Markets, Xerox Corporation, and Paychex, Inc. UR/SMC continues to be the largest employer, as the Rochester region economy continues to transition from an economy which was heavily based on manufacturing decades ago to one with a greater emphasis on education, health services, and professional/business services. In 2017, UR/SMC had 29,003 employees. A significant share of the University's growth has occurred at the University of Rochester Medical Center as Strong Health extends clinical service penetration beyond the metropolitan area and URMH expands its research facilities and total employment. Eastman Kodak Company, which was once the largest employer in the region, is now the 16th largest employer in the Rochester area with 1,640 employees. The company emerged from bankruptcy in September 2013, and continues to operate as a much smaller business enterprise.

The US economy continued to show improvement in 2017. GDP growth through the 3rd quarter of 2017 was 2.4% vs 2.1% for calendar year 2016. GDP growth is expected to remain in the 2-3% range in 2017. The national unemployment rate at September 2017 was 4.2% vs 4.9% at September 2016. The prime rate of interest in September 2017 was 4.25% vs 3.25% in September 2016, the result of the Federal Reserve's decision to increase short-term interest rates in 2017. The Federal Open Market

Committee kept the current fed funds rate at 1.25 percent in September 2017. It expects to raise this interest rate to 1.5 percent by the end of 2017. It will normalize it at 2 percent in 2018 and raise it to 3 percent in 2019.

Requests for Information

This financial report is designed to provide a general overview of the Rochester Economic Development Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Director of Finance, City Hall – Room 109A, 30 Church Street, Rochester, NY 14614.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION
STATEMENTS OF NET POSITION
SEPTEMBER 30,

| ASSETS | 2017 | 2016 |
|---|-----------------------------|-----------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 4,597,243 | \$ 10,006,536 |
| Accounts receivable | 115,222 | 41,692 |
| Notes receivable - current portion | 406,266 | 206,073 |
| Total current assets | <u>5,118,731</u> | <u>10,254,301</u> |
| Property and equipment: | | |
| Land and buildings, net | 1,666,412 | 691,812 |
| Other assets: | | |
| Notes receivable - net of current portion | <u>7,588,085</u> | <u>3,250,293</u> |
| Total assets | <u><u>\$ 14,373,228</u></u> | <u><u>\$ 14,196,406</u></u> |
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Accounts payable | \$ 30,881 | \$ 105,317 |
| Total current liabilities | <u>30,881</u> | <u>105,317</u> |
| Net position: | | |
| Invested in capital assets | 1,666,412 | 691,812 |
| Restricted | 11,719,695 | 12,737,121 |
| Unrestricted | <u>956,240</u> | <u>662,156</u> |
| Total net position | <u>14,342,347</u> | <u>14,091,089</u> |
| Total liabilities and net position | <u><u>\$ 14,373,228</u></u> | <u><u>\$ 14,196,406</u></u> |

See notes to the financial statements

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended September 30,

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Interest on loans receivable | \$ 125,490 | \$ 25,567 |
| Rental income | 277,164 | 208,632 |
| Other revenues | <u>73,907</u> | <u>59,874</u> |
| Total operating revenues | 476,561 | 294,073 |
| Operating expenses: | | |
| Salary & benefits | - | 36,140 |
| Insurance | 30,668 | 5,318 |
| Professional services | 9,307 | 110,535 |
| Management fee | 70,000 | 70,000 |
| Other expenses | 97,252 | 20,926 |
| Depreciation | <u>25,400</u> | <u>25,400</u> |
| Total operating expenses | 232,627 | 268,319 |
| Operating income (loss) | 243,934 | 25,754 |
| Non-operating revenues (expenses): | | |
| Interest revenues | 7,324 | 10,033 |
| Interest expenses | <u>0</u> | <u>0</u> |
| Total non-operating revenues (expenses) | 7,324 | 10,033 |
| Change in net position | <u>251,258</u> | <u>35,787</u> |
| Net position - beginning of year | <u>14,091,089</u> | <u>14,055,302</u> |
| Net position - end of year | <u><u>\$ 14,342,347</u></u> | <u><u>\$ 14,091,089</u></u> |

See notes to the financial statements

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended September 30,

| | <u>2017</u> | <u>2016</u> |
|---|----------------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 329,124 | \$ 207,332 |
| Payments to service providers | (281,663) | (110,220) |
| Payments for employee services | 0 | (36,140) |
| Other revenues | 73,907 | 59,874 |
| Net cash provided by operating activities | <u>121,368</u> | <u>120,846</u> |
| Cash flows from investing activities: | | |
| Purchase of asset | (1,000,000) | 0 |
| Interest revenues | 7,324 | 10,033 |
| Issuance of notes receivable | (4,850,000) | (1,200,000) |
| Repayments of notes receivable | 312,015 | 191,062 |
| Net cash provided (used) by investing activities | <u>(5,530,661)</u> | <u>(998,905)</u> |
| Net increase (decrease) in cash and cash equivalents | (5,409,293) | (878,059) |
| Cash and cash equivalents - beginning of year | <u>10,006,536</u> | <u>10,884,595</u> |
| Cash and cash equivalents - end of year | <u><u>\$ 4,597,243</u></u> | <u><u>\$ 10,006,536</u></u> |
| Reconciliation of income from operations to net cash provided by operating activities: | | |
| Income from operations | \$ 243,934 | \$ 25,754 |
| Adjustment to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation expense | 25,400 | 25,400 |
| Change in assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable | (73,530) | (26,867) |
| Increase (decrease) in: | | |
| Accounts payable | (74,436) | 102,096 |
| Accrued liabilities | - | (5,537) |
| Net cash provided by operating activities | <u><u>\$ 121,368</u></u> | <u><u>\$ 120,846</u></u> |

See notes to the financial statements

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Rochester Economic Development Corporation (the "Corporation") was formed under the Not-for-Profit Corporation Law of the State of New York for the purpose of creating employment opportunities, particularly for low and moderate income persons, thereby improving the quality and condition of life in the City of Rochester, New York (the "City"). This is accomplished by encouraging and affecting the retention of existing business and industry, as well as encouraging the location and expansion of residential, commercial, industrial, and manufacturing facilities in the City. The Corporation is subject to the provisions of the New York State Public Authorities Law. As a local authority under this law, the Corporation is required to make certain information available to the public.

New York State Empire Zones, formerly known as the Economic Development Zones, are designated geographic areas that offer special incentives to encourage economic development, business investment, and job creation. Certified businesses in the zone that are eligible could qualify for significant New York State income tax credits, property tax abatements, sales tax benefits, as well as utility discounts.

The City of Rochester provides certain administrative services to the Corporation. During the years ended September 30, 2017 and 2016, the Corporation made a payments of \$70,000 for these services to the City of Rochester.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues, expenses, gains, and losses are classified into three classes of net position - restricted, unrestricted and net investment in capital assets - which are displayed in the statement of net position.

B. NET POSITION

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position - Consists of net position with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

C. ACCOUNTS RECEIVABLE

Accounts receivable are reported at their net realizable value. Generally accepted accounting principles in the United States of America require the establishment of an allowance for uncollectable accounts, however, no allowance for uncollectible accounts has been provided since management believes that such allowance would not be material.

D. PROPERTY AND EQUIPMENT

Property and equipment is recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements is expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. For each of the years ended September 30, 2017 and 2016 depreciation expense amounted to \$25,400. The estimated useful life for buildings is 25 years.

E. INCOME TAXES

The Corporation is a Public Benefit Corporation of the State of New York and is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been made on the accompanying financial statements.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include certificates of deposit which mature within 90 days of issuance.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following new statements:

- Statement No. 77, *Tax Abatement Disclosures*, which will be effective for the year ending June 30, 2017;
- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending June 30, 2020;
- Statement No. 85, *Omnibus*, which will be effective for the year ending June 30, 2019; and
- Statement No. 87, *Leases*, which will be effective for the year ending June 30, 2021.

The Corporation is reviewing these statements and plans on adoption, as required.

NOTE 3. DETAILS ON TRANSACTION CLASSES/ACCOUNTS

A. ASSETS

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include interest-bearing accounts and certificates of deposit totaled \$4,597,243 and \$10,006,536 at September 30, 2017 and 2016, respectively. As of September 30, 2017 the Corporation had no certificates of deposit. The Corporation's investment policies are governed by State statutes. The Corporation adopted an investment policy during the 2011 fiscal year. The Corporation's monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and municipalities and school districts.

The Corporation's aggregate bank balances were fully collateralized at September 30, 2017.

Investment and Deposit Policy

The Corporation currently follows an investment and deposit policy as directed by State statutes, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Board of Directors.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of government securities with an aggregate value equal to 102% of the aggregate amount of deposits.

Statement of Cash Flows

For the purpose of this statement, cash includes both the restricted and unrestricted portions.

NOTE 4. RECEIVABLES

Major revenues accrued by the Corporation at September 30, include the following:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|-------------------|------------------|
| Loan collections from the City | \$ 53,251 | \$ 19,654 |
| Rent collection | 49,797 | 17,719 |
| Other miscellaneous receivables | 12,174 | 4,319 |
| Total accounts receivable | <u>\$ 115,222</u> | <u>\$ 41,692</u> |

NOTE 5. NOTES RECEIVABLE

The Corporation maintains a revolving loan fund, which is intended to provide loans to existing and new businesses located in the City. No allowance has been provided as all loans are deemed collectable by management.

Notes receivable at September 30, is as follows:

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Note receivable, relating to the Whitney Baird Associates loan, due in monthly installments of \$9,198, including interest at 1% through December 1, 2022. The note is guaranteed by the owners of the borrowing company. | \$ 1,560,549 | \$ 1,654,807 |
| Note receivable, relating to the Whitney Baird Associates loan, due in monthly installments of \$2,299, including interest at 1% through July 1, 2024 with a lump sum balance of \$264,564 due on August 1, 2024. The note is guaranteed by the owners of the borrowing company. | 429,281 | 452,456 |
| Note receivable, relating to the Monroe School Transportation loan, due in monthly installments of \$4,273, including interest at 1% through November 1, 2017. The note is collateralized by a letter of credit. | 8,536 | 59,456 |
| Note receivable, relating to the Mamasans Monroe loan, due in monthly installments of \$1,752, including interest at 1% through April 1, 2021. The note is collateralized by a letter of credit. | 73,976 | 93,951 |
| Note receivable, relating to the Sibley redevelopment loan, due in quarterly interest payments of \$5,000 (2%) and a lump sum payment due on April 1, 2026. The note is collateralized by a guaranty. | 1,000,000 | 1,000,000 |
| Note receivable, relating to the Syntech loan, due in monthly installments of \$1,931, including interest at 3% through June 1, 2026. The note is collateralized by a letter of credit. | 177,703 | 195,696 |
| Note receivable, relating to the Midtown Tower LLC loan, due in monthly installments of \$25,910, including interest at 4.5% through March 1, 2027. The note is collateralized by a guaranty. | 2,399,857 | - |
| Note receivable, relating to the Schreiber Family loan, due in monthly installments of \$3,066, including interest at 1% through July 1, 2027. The note is collateralized by a letter of credit. | 344,449 | - |
| Note receivable, relating to the 183 East Main St. LLC loan, due in monthly interest payments of \$5,000 (3%) and a lump sum payment due on January 1, 2019. The note is collateralized by a guaranty. | 2,000,000 | - |
| Total notes receivable | 7,994,351 | 3,456,366 |
| Less current portion | <u>406,266</u> | <u>206,073</u> |
| Long term portion | <u>\$ 7,588,085</u> | <u>\$ 3,250,293</u> |

The Board has approved the following loans which remain unissued as of September 30, 2017:

| | |
|-------------------------------|-------------------|
| Intellimetal, Inc | \$ 300,000 |
| Tracy Jones/Jones Development | <u>183,124</u> |
| Total | <u>\$ 483,124</u> |

NOTE 6. MICROFUND LOAN PROGRAM

REDCO entered into an agreement with Kiva Microfunds (Kiva) during the 2015-16 year and provided a grant in the amount of \$100,000 as a match to Kiva's direct loan program. The purpose of the program is to provide loans to assist Rochester businesses and promote employment opportunities in the City of Rochester.

NOTE 7. LAND AND BUILDINGS

A summary of land and buildings at September 30, respectively, is as follows:

| | <u>2017</u> | | | |
|---|------------------------------|--------------------|-------------------------------------|---------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements/ Adjustments</u> | <u>Ending Balance</u> |
| Capital assets not being depreciated - land | \$ 260,000 | \$ 215,000 | \$ - | \$ 475,000 |
| Capital assets being depreciated - buildings | <u>2,788,587</u> | <u>785,000</u> | <u>-</u> | <u>3,573,587</u> |
| Total capital assets | 3,048,587 | 1,000,000 | - | 4,048,587 |
| Less accumulated depreciation - buildings | <u>(2,356,775)</u> | <u>(25,400)</u> | <u>-</u> | <u>(2,382,175)</u> |
| Capital assets, net of depreciation | <u>\$ 691,812</u> | <u>\$ 974,600</u> | <u>\$ -</u> | <u>\$ 1,666,412</u> |
| | <u>2016</u> | | | |
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements/ Adjustments</u> | <u>Ending Balance</u> |
| Capital assets not being depreciated land | \$ 260,000 | \$ - | \$ - | \$ 260,000 |
| Capital assets being depreciated - buildings | <u>2,788,587</u> | <u>-</u> | <u>-</u> | <u>2,788,587</u> |
| Total capital assets | 3,048,587 | - | - | 3,048,587 |
| Less accumulated depreciation - buildings | <u>(2,331,375)</u> | <u>(25,400)</u> | <u>-</u> | <u>(2,356,775)</u> |
| Capital assets, net of depreciation | <u>\$ 712,212</u> | <u>\$ (25,400)</u> | <u>\$ -</u> | <u>\$ 691,812</u> |

This property is rented to independent third parties (see Note 8).

NOTE 8. LEASES

The Corporation received an annual rent amount of \$219,640 and \$208,632 for the years ended September 30, 2017 and 2016, respectively, from an independent third party for certain of the Corporation's land and buildings. The prior lease expired in November 2014 and was subsequently modified and extended through January 2018.

The Corporation purchased the Bulls Head Plaza in July 2017 and leases space to various tenants. As of September 30, 2017 the Corporation received rents of \$57,524 from the tenants.

NOTE 9. RESTRICTED NET POSITION

Restricted net position (including capital assets) available as of September 30, are as follows:

| | <u>2017</u> | <u>2016</u> |
|------------------------|----------------------|----------------------|
| Revolving Loan Program | \$ 10,420,305 | \$ 11,442,913 |
| IMCP | 1,009,033 | 1,003,851 |
| Phillip J. Banks SBAP | <u>290,357</u> | <u>290,357</u> |
| | <u>\$ 11,719,695</u> | <u>\$ 12,737,121</u> |

NOTE 10. RJSCB REVOLVING LOAN PROGRAM

The Corporation has entered into an agreement with the Rochester Joint Schools Construction Board to administer a Revolving Loan Program which will be used to provide assistance to eligible contractors/subcontractors providing work and/or materials in connection with Phase II of the Rochester Schools Modernization Program.

The Corporation will hold, manage and disburse funds for the RJSCB for loans underwritten and approved by RJSCB. As compensation for its role as administrator of the program, The Corporation will receive 1.5% of the principal amount of the loan as a closing fee for each loan processed. The Corporation shall disburse one-half percent (0.5%) of the loan amount to the City for administrative services.

NOTE 11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2017 which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles other than the issuance of debt and the interfund borrowing referred to above.

NOTE 12. REPROGRAMMING OF RESTRICTED FUNDS

At the November 19, 2015 board meeting, the Board of Directors reviewed and approved a reprogramming of certain restricted REDCO equity accounts. This reprogramming was due to some equity accounts pertaining to programs that are no longer in existence and equity accounts which are over-funded. The accounts which were reprogrammed into other accounts were Investment Program, Enterprise Community Zone, Kodak/Edd Loan Fund, and the Midtown Relocation Fund.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Rochester Economic Development Corporation
City of Rochester, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Rochester Economic Development Corporation (the Corporation), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Rochester, New York
December 8, 2017

THIS PAGE LEFT INTENTIONALLY BLANK

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors of the
Rochester Economic Development Corporation

We have examined Rochester Economic Development Corporation's (the Corporation) compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") during the period October 1, 2016 to September 30, 2017. Management is responsible for the Corporation's compliance with the specified requirements. Our responsibility is to express an opinion on the Corporation's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Corporation complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Corporation complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the Investment Guidelines during the period October 1, 2016 to September 30, 2017.

This report is intended solely for the information and use of the Board of Directors, management and others within the Corporation and the New York State Authorities Budget Office, and is not intended to be and should not be used by anyone other than these specified parties.

Freed Maxick CPAs, P.C.

Rochester, New York
December 8, 2017